

Message Text

LIMITED OFFICIAL USE

PAGE 01 GEORGE 03373 01 OF 02 311737Z

ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00

XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 /088 W

-----051431 311914Z /44

R 311030Z DEC 77

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC 5943

INFO AMEMBASSY BRIDGETOWN

AMEMBASSY KINGSTON

AMEMBASSY PARAMARIBO

AMEMBASSY PORT OF SPAIN

LIMITED OFFICIAL USE SECTION 1 OF 2 GEORGETOWN 3373

E.O. 11652: N/A

TAGS: EFIN, ECON, GY

SUBJECT: MONETARY DEVELOPMENTS IN GUYANA

BEGIN SUMMARY: DURING THE LAST YEAR, MONETARY DEVELOPMENTS IN GUYANA HAVE BEEN CONDITIONED BY TWO FACTORS: A CONTINUED DETERIORATION IN THE OFFICIAL NET FOREIGN EXCHANGE POSITION AND A SHARP INCREASE IN CENTRAL BANK SUPPORT OF THE GOG BUDGET DEFICIT. BANK NOTES AND CURRENCY IN CIRCULATION INCREASED BY 12 PER CENT. LIQUID COMMERCIAL BANK ASSETS WERE UP 44 PER CENT. HOWEVER, BECAUSE OF REDUCED LOAN DEMAND AND TIGHT LENDING GUIDELINES IMPOSED BY THE CENTRAL BANK, BANK DEPOSITS INCREASED ONLY 15 PER CENT, WITH NO SECONDARY EXPANSION IN DEPOSITS OCCURRING. BANKERS CAUTION THAT MUCH OF THIS LIQUIDITY CAN BE TRACED TO IDLE BALANCES HELD BY IMPORTERS AWAITING CENTRAL BANK APPROVAL FOR FOREIGN EXCHANGE REMITTANCES WHICH OTHERWISE WOULD TEND TO REDUCE COMMERCIAL BANK LIQUID ASSETS. GENERALLY, BANKERS REPORT REDUCED VELOCITY IN DEMAND DEPOSITS AND DECREASED

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 GEORGE 03373 01 OF 02 311737Z

LOAN DEMAND AMONG PRIVATE SECTOR FIRMS IN RESPONSE TO GENERAL BUSINESS DOWNTURN AND GOG RESTRICTIONS ON IMPORTS NEEDED FOR LOAL INDUSTRY. HOWEVER, INDICATIONS ARE THAT THE GOG WILL AUTHORIZE PUBLIC SECTOR CORPORATIONS AND ENTITIES TO SEEK "OVERDRAFT" FACILITIES FROM THE BANKING SYSTEM TO COVER UNFORESEEN EXPENSES, LARGELY ARISING OUT OF RETROACTIVE MINIMUM WAGE PAYOUTS, AND TO

SHORE UP WEAK CASH POSITIONS RESULTING FROM A HEAVY
INCREASE IN UNPAID BILLS OWING BY GOG MINISTRIES
AND AGENCIES. END SUMMARY.

1. FOREIGN RESERVES IN THE BANKING SYSTEM. A COMPARISON
OF BALANCE SHEETS OF THE BANK OF GUYANA (BOG) FOR NOVEMBER
1976 AND 1977 SHOW A STEADY EROSION OF FOREIGN EXCHANGE
HOLDINGS FROM G\$70.2 MILLION TO 59.0 MILLION (A 16 PERCENT
DROP) AND A 45 PER CENT INCREASE IN OBLIGATIONS TO IFI'S
AND FOREIGN CENTRAL BANKS FROM G\$114.6 MILLION TO G\$166.5
MILLION, RESULTING IN A SHIFT IN THE NET OFFICIAL POSITION FROM A
MINUS G\$44.4 MILLION TO A MINUS G\$107.5 MILLION. (NOTE: US\$1.00
EQUALS G\$2.5452). COMBINING THE NET FIGURE WITH THE FOREIGN
EXCHANGE HOLDINGS OF COMMERCIAL BANKS, AS REPORTED BY THE
BOG, THE NET FOREIGN EXCHANGE POSITION OF THE BANKING
SYSTEM MAY BE ESTIMATED AT MINUS G\$26.3 MILLION FOR
NOVEMBER 1976 AND MINUS G\$95.7 MILLION FOR NOVEMBER
1977, A 260 PER CENT DECREASE. (THESE FIGURES DO NOT
REFLECT NON-OFFICIAL OFFSHORE BORROWING NOR APPLICATIONS
FOR FOREIGN EXCHANGE REMITTANCES PENDING WITH THE BOG
IN CONNECTION WITH IMPORTS. IN CONVERSATIONS WITH EMBOFFS,
BANKERS ESTIMATED BACKLOG OF FOREIGN EXCHANGE REMITTANCE
APPLICATIONS (WHICH LARGELY REPRESENT ARREARS TO FOREIGN
SUPPLIERS) IN AMOUNTS RANGING FROM G\$85.0 MILLION TO
G\$150.0 MILLION.)

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 GEORGE 03373 01 OF 02 311737Z

2. CENTRAL BANK DOMESTIC CREDIT OPERATIONS. THE CONTRACTING
EFFECTS OF A REDUCTION OF FOREIGN BALANCES HELD BY THE
BANKING SYSTEM HAVE BEEN MORE THAN OFFSET BY BOG PURCHASES
OF GOG TREASURY BILLS, WHICH FROM NOV 1976 TO NOV 1977
AMOUNTED TO G\$115.6 MILLION. DISCOUNTING G\$26.1 MILLION
IN ADVANCES TO THE GOG WHICH HAVE BEEN LIQUIDATEDJP
BOG SUPPORT OF THE GOG BUDGET APPEARS TO HAVE BEEN G\$89.5
MILLION DURING THIS PERIOD. (COMBINING THIS FIGURE WITH
CHANGES IN GOVERNMENT PAPER AND SECURITIES HELD BY COM-
MERCIAL BANKS, NET GOVERNMENT BORROWINGS FROM THE BANKING
SYSTEM APPEAR TO AMOUNT TO G\$169.0 MILLION.) THE NET
EFFECT OF BOG CREDIT OPERATIONS HAVE BEEN HIGHLY EXPANSION-
ARY. COMMERCIAL BANK LIQUID ASSETS DURING THIS SAME
PERIOD HAVE INCREASED 44 PER CENT FROM G\$145.9 MILLION
TO G\$210.3 MILLION. CURRENCY AND BANK NOTES IN CURCULA-
TION HAVE INCREASED 12 PER CENT FROM G\$99.6 MILLION TO
G\$112.1 MILLION.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 GEORGE 03373 02 OF 02 311737Z
ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 /088 W
-----051415 311913Z /44

R 311030Z DEC 77
FM AMEMBASSY GEORGETOWN
TO SECSTATE WASHDC 5944
INFO AMEMBASSY BRIDGETOWN
AMEMBASSY KINGSTON
AMEMBASSY PARAMARIBO
AMEMBASSY PORT OF SPAIN

LIMITED OFFICIAL USE SECTION 2 OF 2 GEORGETOWN 3373

3. CREDIT CONTROLS AND COMMERCIAL BANK DEPOSITS. DESPITE INCREASES IN COMMERCIAL BANK LIQUID ASSETS, LOANS DURING NOV 1976 TO NOV 1977 HAVE EXPANDED BY ONLY G\$10.7 MILLION OR 5 PER CENT FROM G\$221.4 MILLION TO G\$222.1 MILLION. LOANS TO BUSINESS ENTERPRISES HAVE DECLINED FROM G\$81.3 MILLION TO G\$76.0 MILLION. THIS REFLECTS THE GENERAL SLOWDOWN IN BUSINESS, POLITICAL UNCERTAINTIES AND RESTRICTION ON IMPORTS WHICH HAVE REDUCED THE NEED FOR FINANCING, AS WELL AS TIGHT RESTRICTIONS IMPOSED BY THE BOG ON LOANS TO PRIVATE SECTOR COMPANIES TO CHANNEL AVAILABLE CREDIT RESOURCES TO PUBLIC SECTOR ENTERPRISES. HOWEVER, BECAUSE BANKS ARE GENERALLY UNWILLING TO LEND TO PUBLIC SECTOR CORPORATIONS AND UTILITIES WITHOUT GOG GUARANTEES, WHICH IN MANY INSTANCES HAVE NOT BEEN FORTHCOMING, LOAN PORTFOLIOS HAVE NOT EXPANDED SUFFICIENTLY TO GENERATE A SECONDARY EXPANSION IN DEPOSITS. TOTAL DEPOSITS INCREASED 15 PER CENT FROM G\$351.9 MILLION TO G\$405.5 MILLION, LESS THAN THE INCREASE IN COMMERCIAL BANK LIQUID ASSETS. THUS, BANKS HAVE INVESTED EXCESS RESERVES IN LOCAL TREASURY
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 GEORGE 03373 02 OF 02 311737Z

BILLS, INCREASING THEIR HOLDINGS 92 PER CENT FROM 85.9 MILLION TO G\$165.7 MILLION, THEREBY HELPING THE GOG FINANCE ITS BUDGET DEFICIT. BANKS REPORT THAT CURRENT HIGH LIQUIDITY POSITION IS PARTLY PRECAUTIONARY, IN VIEW OF

LARGE AMOUNT OF IDLE DEPOSITS HELD BY IMPORTERS AWAITING BOG APPROVAL FOR FOREIGN EXCHANGE REMITTANCES WHICH OTHERWISE WOULD TEND TO REDUCE COMMERCIAL BANK LIQUID ASSETS.

4. TRENDS AND EXPECTATIONS. GENERALLY, BANKERS ARE ANXIOUS TO EXPAND LOAN PORTFOLIOS. THE RETURN ON LOCAL TREASURY BILLS IS NOT SUFFICIENT TO COVER INTEREST OBLIGATIONS TO DEPOSITORS AND ADMINISTRATIVE EXPENSES. INDICATIONS ARE THAT LENDING TO PUBLIC SECTOR ENTITIES IS LIKELY TO INCREASE. EARLY NOV 1977 THE GOG ISSUED A G\$28 MILLION GUARANTEE TO THE GUYANA RICE BOARD TO COVER A RETROACTIVE MINIMUM WAGE PAYOUT AND TO HELP FINANCE THE PURCHASE OF A BUMPER RICE CROP. MANY OTHER PUBLIC SECTOR ENTERPRISES, FACED WITH SIMILAR MINIMUM WAGE PAYOUTS FOR NEXT YEAR AND BURDENED BY OVERDUE ACCOUNTS OWING BY GOG MINISTRIES AND AGENCIES ARE LIKELY TO PRESS THE MINISTRY OF FINANCE FOR SIMILAR GUARANTEES TO RESORT TO ADDITIONAL BANK CREDIT. GENERALLY, BANKERS ARE NOT OPTIMISTIC ABOUT PROFIT LEVELS FOR 1978. HOWEVER, THEY DO EXPECT THEIR LETTER OF CREDIT BUSINESS TO INCREASE SUBSTANTIALLY, AS FOREIGN SUPPLIERS TAKE STEPS TO SECURE COMMERCIAL TRANSACTIONS WITH GUYANA. COMMENT. THE MOST STRIKING DEVELOPMENT DURING THE PERIOD FROM NOV 1976 TO NOV 1977 HAS BEEN G\$115.0 INCREASE IN BOG HOLDINGS OF GOG TREASURY BILLS ANBMPAPER, UP 66 PER CENT, RESULTING IN A 12 PER CENT INCREASE IN BANK NOTES IN CIRCULATION AND A 44 PER CENT INCREASE IN COMMERCIAL BANK LIQUID ASSETS. THE FULL INFLATIONARY CONSEQUENCES OF THIS EXPANSIONARY POLICY HAS BEEN AVOIDED BY A SHARP INCREASE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 GEORGE 03373 02 OF 02 311737Z

IN COMMERCIAL BANK HOLDINGS OF TREASURY BILLS AND SECURITIES, UP 92 PER CENT, LARGELY IN RESPONSE TO LIMITED LENDING OPPORTUNITIES, UNCERTAINTY WITH REGARD TO IDLE BALANCES HELD BY IMPORTERS AWAITING BOG APPROVAL FOR FOREIGN EXCHANGE REMITTANCES, AND CREDIT GUIDELINES IMPOSED BY THE BOG. NEVERTHELESS, THE STAGE IS SET FOR A SHARP SECONDARY EXPANSION OF DEPOSITS WHICH COULD GENERATE SERIOUS INFLATIONARY PRESSURES. WHETHER THE GOG DECIDES TO PERMIT INCREASED LENDING AND AN EXPANSION OF DEPOSITS MAY WELL DEPEND ON CONDITIONS INSISTED UPON BY THE IMF IN CURRENT NEGOTIATIONS FOR A STAND-BY AGREEMENT. BLACKEN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY
Control Number: n/a
Copy: SINGLE
Sent Date: 31-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977GEORGE03373
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780004-0810
Format: TEL
From: GEORGETOWN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977121/aaaaaapg.tel
Line Count: 218
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: fce020fb-c188-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 31-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 101320
Secure: OPEN
Status: NATIVE
Subject: MONETARY DEVELOPMENTS IN GUYANA BEGIN SUMMARY: DURING THE LAST YEAR, MONETARY DEVELOPMENTS IN GUYANA HAVE BEEN CONDITIONED BY TWO FACTORS: A CON
TAGS: EFIN, ECON, GY
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/fce020fb-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009